



United States Senator
Richard Shelby
REPORTS TO ALABAMA



LOOMING TAX DEADLINE REMINDS US WHY WE NEED REFORM

This week the Senate Finance Committee is expected to wrap up consideration of legislation to reform the Internal Revenue Service. The legislation will provide new rights to taxpayers and improve their position in dealing with the agency. In addition, last Wednesday Vice President Gore unveiled the Administration's plan for "re-inventing" the IRS. He outlined an initiative for improving the efficiency of the agency and for helping taxpayers "when they sit down at their kitchen tables to fill out those tax forms."

But many taxpayers have long since given up trying to sit down in their kitchens to do their taxes, and those that do often need a personal computer with the latest tax software. Many others are forced to pay an accountant to figure out their tax liability for them. Either way, the added compliance costs to the taxpayer, in addition to their tax liability, are far from superfluous. The Tax Foundation found that the total compliance cost to taxpayers in 1997 was \$230.4 billion—an amount that could have run the entire Medicare program (\$190 billion) last year, with enough left over to fund the Veterans Benefits program (\$39 billion).

Even when taxpayers seek professional assistance, the complexity of the tax code still thwarts their efforts to comply with the law. For example, when *Money* magazine asked 45 tax professionals to calculate a mock tax return last year, not one of them got the correct tax liability. What is even more sobering is that most of them were not even close—fewer than one in four came within \$1,000 of the correct answer. Although there were many well intended efforts, mine included, to provide tax relief last

year, this situation was clearly exacerbated by the Taxpayer Relief Act of 1997 which made over 800 changes to the existing tax code and added 250 new sections as well.

Because many taxpayers will not have the expertise to figure out their taxes, they therefore will not benefit from last year's tax cuts. In addition, due to the targeted nature of the tax cuts, many people will not receive tax relief because it was simply not designed to benefit them. And if that is not enough to make one conclude that the Taxpayer Relief Act was somewhat of a misnomer, consider this: even after last year's tax cut efforts, the federal income tax burden will grow this year to over 20 percent of the economy for the first time since World War II. It is no wonder families are working harder and harder just to get by when, in addition to putting food on the table, they have to satisfy the tremendous appetite of the federal government.

Majority Leader Richard Armey and myself have introduced legislation that will address both the complexity issue and the overall tax burden. Our Freedom and Fairness Restoration Act proposes to replace the current system with a flat income tax that would subject every taxpayer and all income to the same 17 percent rate. The flat tax is so clear, simple, and understandable that it can be calculated on a postcard-sized tax return. The current tax code allows Washington to micromanage the lives of individuals through special credits and deductions that reward some people's behavior, and disincentives that punish others. Furthermore, not only will the implementation of the flat tax simplify taxation and strengthen freedom, it will dramatically cut

taxes and reduce the crippling tax burden with which Americans are faced. However, even though the flat tax includes built-in, across-the-board tax relief, spending caps included in the bill ensure that the federal budget will remain in balance or even in surplus.

Thankfully, some in Congress realize the need for comprehensive reform and are making efforts to keep the focus on the tax code. My counterpart, Majority Leader Armey, along with Representative Billy Tauzin, a supporter of a national retail sales tax, are touring the country debating the virtues of the respective proposals. In addition, Senators Tim Hutchinson and Sam Brownback, along with House members Steve Largent and Bill Paxon, have introduced legislation to sunset the current tax code on December 31, 2001.

I am glad the Clinton Administration has taken notice of the problems with the IRS, and has offered ideas to reform the agency. In addition, I strongly support the efforts of Finance Chairman William Roth in crafting the strongest possible IRS reform legislation. The IRS is horribly inefficient, has too much power over private citizens, and is in desperate need of reform. But having said that, I believe to a large degree these reform efforts are missing the point. Given the staggering tax burden and the complexity of the current system, we must focus and direct our energies toward across the board tax cuts within the context of comprehensive reform. Short of comprehensive tax reform, I will always support targeted relief. However, I believe the best way to provide tax relief, restore freedom, and liberate the American taxpayer is through the implementation of the flat tax.



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